



Presentation
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The Audit Committee Contribution to Accountability



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Presentation Topics

- Audit Committee Definition & Background
- Audit Committee Responsibilities
- Benefits of the Audit Committee
- Challenges Facing the Audit Committee



Audit Committee Definition

The Audit Committee is an **operating committee of the Board of Directors** and is typically **charged with the oversight of the following:**

- **Financial Reporting & Accounting.**
- **Internal Control & Risk Management.**
- **External Audit.**
- **Internal Audit.**



Background Details

- The Audit Committee should be composed of **at least three independent non executive directors** appointed by the Board of Directors for a period of up to three years.
- The main role and responsibilities of the Audit Committee should be set out in written **Terms of Reference** approved by the Board of Directors.



Background Details (Cont'd)

- **Sufficient meetings** of the Audit Committee should be held each year to enable it to discharge its duties adequately and effectively.
- The Audit Committee should **report to the Board of Directors**, identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken.



Audit Committee Responsibilities - Oversight of Financial Reporting & Accounting



This role includes the following duties:

- To assist the Board of Directors to **ensure that financial reports** to external parties, in particular the annual financial statements, **are balanced and fair and conform to accounting standards.**
- To consider & **review the system of financial accounting and controls** in operation and the **adequacy of personnel and other resources available.**

Oversight of Financial Reporting & Accounting (Cont'd)

- To consider & **review the system of financial accounting and controls** in operation from the perspective of the **legal & other statutory responsibilities**.
- Review **Annual Budgets** and **periodic financial reports** with Management.



Oversight of Internal Control & Risk Management



Duties here include:

- To satisfy the Board of Directors that there is a sufficient, systematic **review of the Internal Control & Risk Management arrangements** of the organisation in place, unless expressly addressed by a separate board risk committee.



Oversight of Internal Control & Risk Management (Cont'd)

- Unless addressed by such a separate forum, the Audit Committee should receive **reports from Management on the effectiveness of the systems employed in this area and the conclusions of any testing carried out by the Internal and External Auditors. Assurance** should also be sought that **any weaknesses in control uncovered are being corrected.**



Oversight of Internal Control & Risk Management (Cont'd)

- To ensure that appropriate procedures are in place to minimise the risk of losses arising from **fraud**.
- To review **whistle blowing arrangements** by which staff and members of the public may, in confidence, raise concerns about possible improprieties. The committee should ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow up action.

Oversight of Internal Control & Risk Management (Cont'd)

- To ensure that all internal control and risk management related matters raised in the **External Auditor's Management Letter** are considered and addressed.
- Unless addressed by another forum, the audit committee should review and approve the **statements included in the annual report in relation to internal control and the management of risk.**



Oversight of Internal Control & Risk Management (Cont'd)



- To commission **special investigations** on the committees behalf of matters of particular concern relating to internal control and risk management.



Oversight of External Audit

The Audit Committee is responsible for overseeing the organisation's relations with the external auditor and its duties in this area include :

- To recommend to the Board of Directors the **appointment, reappointment and removal** of the External Auditor.
- To approve the **Terms of Engagement and remuneration** to be paid in respect of audit services provided.



Oversight of External Audit (Cont'd)

- To review and agree the External Auditor **Engagement Letter, Scope and Plan of the Work** to be performed prior to audit.
- To review the **Audit Representation Letter** prior to Management signature and consider whether the information provided is complete and appropriate based on its own knowledge.
- To review the **audit findings and Management Letter**. Management's responsiveness to the external auditor's findings and recommendation should also be monitored by the committee.

Oversight of External Audit (Cont'd)

- To assess annually the **qualification, expertise, resources and independence of the External Auditor and the effectiveness of the audit process** employed.
- Should the External Auditor **resign**, the committee should investigate the issues giving rise to such resignation and consider whether any action is required.



Oversight of Internal Audit

The role of the Audit Committee in this area includes:

- To consider and recommend to the Board of Directors on the appropriateness of the **Internal Audit Charter**.
- To recommend to the Board of Directors the **appointment or termination of the Head of Internal Audit**.



Oversight of Internal Audit (Cont'd)

- To review and approve the **Annual Audit Plan** and all significant interim changes that may arise. Ensure that the Audit Plan is appropriately linked to the organisation's mission and addresses all key areas of risk.
- To consider and review the **scope of the Internal Audit work and reports** and make recommendations arising out of the work undertaken.



Oversight of Internal Audit (Cont'd)

- To confirm that **Internal Audit activities** are being carried out **in accordance with professional standards and good practice**.
- To **receive and review Internal Audit Reports** and seek to satisfy itself both regarding the **progress on the Internal Audit work against plan and of the implementation of the agreed audit recommendations**.



Oversight of Internal Audit (Cont'd)

- To **commission** on occasion **Internal Audit work** directly on the committee's behalf.
- To **meet with the Head of Internal Audit on a regular basis**, without the presence of management, and ensure that the Head of Internal Audit has **direct access to the Board Chairman and Audit Committee**.



Oversight of Internal Audit (Cont'd)

- **To monitor and review, at least annually, the effectiveness of the Internal Audit Function.**

Advise on such matters as the adequacy of the level of resourcing and seek to ensure that it operates on an independent basis from management and other restrictions.



Benefits of the Audit Committee

The Audit Committee can benefit an organisation by:

- Acting as a **forum for dialogue between the Accountable Officer or Statutory Body, Executive Management and the Internal & External Auditors.**

Such communication facilitates a better awareness of each party's responsibilities, promotes relationships of accountability and provides a more efficient and coordinated audit process.



Benefits of the Audit Committee (Cont'd)

- Providing **increased comfort on the strength of governance and internal controls** within the organisation.
- **Promoting the integrity and quality of internal and external reports** by providing a high level of assurance and check.



Benefits of the Audit Committee (Cont'd)

- **Fostering and promoting a more effective and efficient audit process** by providing an **independent review of the Internal Audit Annual Plan and reports.**
- Providing a ‘**no surprises**’ environment, particularly with regard to the prompt identification of risks and threats to the organisation.
- Providing a **depth of knowledge that assists Management** discharge its responsibilities in the most effective and efficient manner.

Challenges facing the Audit Committee

These are some of the current challenges facing Audit Committees :

- Unclear role, responsibilities & expectations.
- Inadequate understanding of the organisations key risks.
- Absence of best practise benchmarking.
- Lack of accountability & performance monitoring.
- Infrequent/inefficient committee meetings.



Challenges facing the Audit Committee (Cont'd)

- Committee member time constraints.
- Leadership vacuum.
- Keeping up to date & training needs.
- Difficulties in sourcing potential independent candidates with requisite experience and expertise to serve on the committee.



Conclusions

- The role and responsibilities of the Audit Committee have been altered and redefined in recent years.
- This process has lead to an ever increasing role and importance for the Audit Committee within the organisation, together with associated benefits and challenges.
- To succeed in it's role the Audit Committee must bring to bear a process of open communication, independence, healthy scepticism and knowledge.

Questions & Answers



Thank You



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